

Teo Seng Capital (TSCB MK)

Not Rated

“Egg-ceptional” Value, Golden Yields Ahead

Fair Value (Return):	MYR4.26 (79.6%)
Price:	MYR2.37
Market Cap:	USD164m
Avg Daily Turnover (MYR/USD)	2.85m/0.66m

- **MYR4.26 FV based on 7.5x FY25F P/E.** Teo Seng Capital is well-positioned to sustain strong earnings through cost efficiencies and steady demand driven by population growth and tourism. Benefiting from favourable market conditions ie strengthening MYR and lower feed costs, its resilient performance is further supported by its planned distribution centre in Pahang, which will bolster supply chain efficiency for its top mini-market chain client. With attractive dividend yields of 10.3% (annualised) and 7.2% for 2H24F and FY25F, TSCB should be rerated from its low 4.2x FY25F P/E.
- **Scaling up to meet Malaysia's egg demand.** Rising consumption from continual population growth (Figure 8) and record high egg consumption per capita (Figure 7), fueled by increasing tourist arrivals, is expected to drive strong demand and sales quantity growth for TSCB. As one of Malaysia's top three egg producers with an over 13% market share, TSCB benefits from economies of scale, particularly in bulk raw material purchases, helping lower production costs. This advantage, combined with a 9% annual increase in output and facility upgrades, are set to boost its margin.
- **Beneficiary of lower feed cost and stronger MYR.** Despite the group's egg ASP dropping 14% YoY in 2Q24 with a further 8% decline in 2H24 (the Government reduced the price ceiling by 3 sen starting mid-Jun 2024), we highlight that the current prices of corn and soybean meal (Figures 9 and 10) – key ingredients of poultry feed – have fallen c.40% and c.25% YoY. Coupled with the strengthening of MYR by 10% YoY (Figure 11), we believe its profit margin should improve tremendously as a net importer.
- **Continual improvement in operating efficiency.** TSCB exports 20% of its eggs to Singapore and has increased direct sales from under 20% in 2018 to 62% in 1H24, saving up to 3 sen per egg by bypassing wholesalers. With plans to open a Pahang distribution center to support its third-largest customer, 99 Speedmart (99SMART MK, NR)'s ambitious outlet expansion in the East Coast, indirect sales are expected to drop further. TSCB aims to boost the share of larger eggs (Grade C and above) from the current 76% (vs 70% in 2018) and expand downstream in 2025 with soft-boiled and flavored eggs (Figure 21). In addition, its in-house feed mill and egg tray production enhance cost efficiency and quality control.
- **Earnings and valuation.** Assuming eight months of subsidy collection in FY24 and egg prices free-floating from Jan 2025, we project a FY22-25 earnings CAGR of 125% with a sustained c.20% net margin going forward. Applying a 7.5x P/E (average 5-year forward P/E) to FY25F earnings, we derive a FV of MYR4.26. Key risks: Fluctuations in supply and feed prices, chicken diseases, egg price instability, and export ban on eggs.

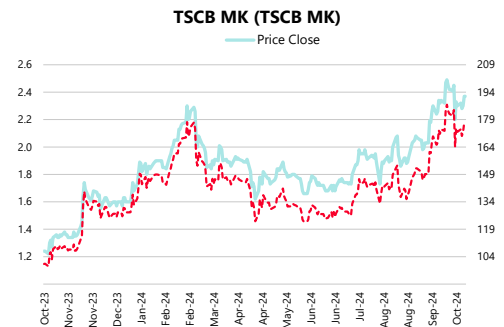
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	48.1	8.7	19.7	38.6	88.1
Relative	35.3	9.9	19.2	32.3	74.6
52-wk Price low/high (MYR)				1.22	–2.49



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23	Dec-24F	Dec-25F
Total turnover (MYRm)	530	652	761	728	864
Recurring net profit (MYRm)	3	15	156	175	170
Recurring net profit growth (%)	(27.3)	391.8	941.0	12.6	(3.0)
Recurring P/E (x)	233.64	47.51	4.56	4.05	4.18
P/B (x)	2.3	2.1	1.5	1.2	1.0
P/CF (x)	75.13	12.77	3.74	3.18	3.67
Dividend Yield (%)	na	na	3.3	7.4	7.2
EV/EBITDA (x)	24.84	15.81	3.65	2.60	2.06
Return on average equity (%)	1.0	4.6	38.4	32.6	25.8
Net debt to equity (%)	51.7	39.9	2.3	net cash	net cash

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.01	0.05	0.52	0.58	0.57
Consumer Non-cyclical	DPS	-	-	0.08	0.18	0.17
Teo Seng Capital	BVPS	1.04	1.12	1.59	2.00	2.40
TSCB MK	Return on average equity (%)	1.0	4.6	38.4	32.6	25.8
Not Rated						
	Valuation metrics	Dec-21	Dec-22	Dec-23	Dec-24F	Dec-25F
	Recurring P/E (x)	233.64	47.51	4.56	4.05	4.18
	P/B (x)	2.3	2.1	1.5	1.2	1.0
	FCF Yield (%)	(1.9)	4.4	21.3	23.0	16.0
	Dividend Yield (%)	-	-	3.3	7.4	7.2
	EV/EBITDA (x)	24.84	15.81	3.65	2.60	2.06
	EV/EBIT (x)	80.42	30.53	4.27	3.04	2.42
	Income statement (MYRm)	Dec-21	Dec-22	Dec-23	Dec-24F	Dec-25F
	Total turnover	530	652	761	728	864
	Gross profit	123	147	237	290	341
	EBITDA	35	53	198	219	246
	Depreciation and amortisation	(24)	(26)	(29)	(31)	(37)
	Operating profit	11	28	169	188	209
	Net interest	(6)	(6)	(7)	(1)	1
	Pre-tax profit	5	21	163	187	210
	Taxation	(2)	(6)	(7)	(11)	(40)
	Reported net profit	3	15	156	175	170
	Recurring net profit	3	15	156	175	170
	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23	Dec-24F	Dec-25F
	Change in working capital	0.0	0.0	0.0	16.0	(12.1)
	Cash flow from operations	9.5	55.7	190.3	223.7	194.0
	Capex	(23.2)	(24.1)	(38.7)	(60.0)	(80.0)
	Cash flow from investing activities	(20.0)	(17.8)	(37.9)	(60.0)	(80.0)
	Dividends paid	0.0	0.0	0.0	(52.6)	(51.1)
	Cash flow from financing activities	16.3	(45.8)	(94.7)	(56.8)	(50.3)
	Cash at beginning of period	44.9	49.0	41.1	98.9	205.9
	Net change in cash	5.8	(8.0)	57.7	106.9	63.7
	Ending balance cash	48.7	41.1	98.8	205.9	269.5
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23	Dec-24F	Dec-25F
	Total cash and equivalents	49	41	99	206	270
	Tangible fixed assets	377	379	392	420	464
	Total assets	622	620	705	778	911
	Short-term debt	156	129	60	15	15
	Total long-term debt	54	45	50	50	50
	Total liabilities	311	285	227	178	192
	Total equity	311	335	477	600	719
	Total liabilities & equity	622	620	705	778	911
	Key metrics	Dec-21	Dec-22	Dec-23	Dec-24F	Dec-25F
	Revenue growth (%)	10.8	23.0	16.7	(4.3)	18.7
	Recurrent EPS growth (%)	(27.3)	391.8	941.0	12.6	(3.0)
	Gross margin (%)	23.1	22.6	31.2	39.8	39.5
	Operating EBITDA margin (%)	6.6	8.2	26.0	30.1	28.5
	Net profit margin (%)	0.6	2.3	20.5	24.1	19.7
	Dividend payout ratio (%)	0.0	0.0	15.1	30.0	30.0
	Capex/sales (%)	4.4	3.7	5.1	8.2	9.3
	Interest cover (x)	1.71	4.04	21.68	47.32	52.82

Source: Company data, RHB

Financial And Valuation Overview

Financial overview. Poultry farming remains a consistent key revenue driver for TSCB, accounting for 85% (on average) of the group's turnover over the past four years. TSCB booked a revenue of MYR375m for 1H24, marking a 3.9% YoY increase from 1H23's MYR361.1m. The improved sales were derived from all business segments, namely poultry farming (+3.3% YoY), and investment & trading of other poultry-related products (+7% YoY). Despite only a 1-month subsidy received in 1H24 vs three months received in 1H23, core earnings have increased to MYR60.4m in 1H24 from MYR46.5m in 1H23 (+29.9% YoY). Even with less subsidy received in 1H24, its core profit margin improved from 12.8% to 16.1% YoY, mainly attributable to higher productivity and cost efficiencies.

Forecasts. Its FY22-25F earnings CAGR of 125% is driven by the group's egg production expansion plans (over 8% increase YoY), market share gains and earnings growth from the animal feed division (+8% YoY). We expect its 2H24 earnings to increase 3.9% YoY. The 2024 earnings forecast assumes yearly egg sales quantity growth of 10.8%, egg ASP of 35 sen, an 8-month collection of its "delayed profits" or subsidies and 8% PBT growth on animal feed division. We forecast its FY25 earnings to sustain despite the expected free float egg selling prices. Barring any unforeseen circumstances, the 2025 forecast assumes yearly egg sales quantity growth of 8.4%, egg ASP of 42 sen (free float price), a 5-month collection of reaming 2024 subsidies and 5% growth on animal feed division.

TSCB's margin expansion is aided by its transition from indirect to direct sales to save the agency costs of about 3 sen per egg. Its sales from wholesalers (indirect sales) have fallen from more than 72% in 2020 to 38% in 1H24. As the group plans to open up one more distribution centre in Pahang in order to support its major mini-market chain customer's outlet expansion, we expect its indirect sales to pare down further.

In the event the Government uplifts ceiling prices and the subsidy on eggs but allows floating egg prices any time next year, we believe the selling prices of eggs will be at the range of 40-43 sen per egg, which is still below the peak of 44 sen, as eggs are heavily dependent on the domestic supply.

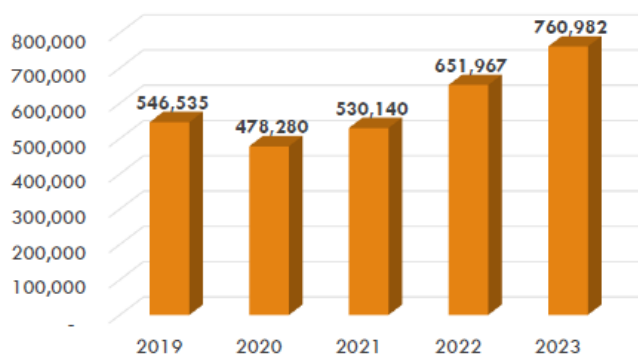
Valuation. We ascribe 7.5x P/E onto its FY25F earnings to derive a FV of MYR4.26. The valuation is in line with its 7.5x mean and median of 5-year 1-year forward P/E (Figure 4). Coupled with over 7% FY24F and FY25F dividend yield, TSCB is offering a palatable valuation trading at just 4.2x FY25F P/E, which is its historical low P/E.

Nevertheless, we do not discount the possibility of a higher valuation being ascribed should the group achieve stronger-than-expected earnings growth going forward or should the market appreciate its significantly healthier balance sheet and stronger profit margin with a major structural change in the company.

Dividends and balance sheets. As the board intends to pay a dividend of 20-50% of its PAT, we are assuming a dividend payout of 30% of its PAT. This translates to estimated yields of 7.5% and 7.2% in FY24-25.

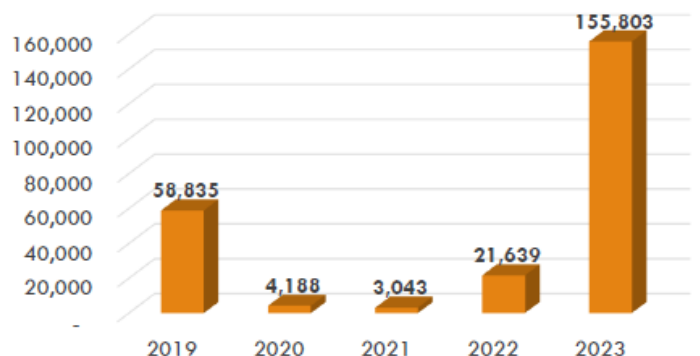
As at 30 Jun 2024, TSCB has a healthy balance sheet, with a net gearing of 0.2x, which is at a record low as compared to 4x in FY22. Going forward, we expect the group to achieve a net cash position of MYR95.7m and MYR159.4m in FY24 and FY25 – driven by stronger cash flow from better earnings prospects.

Figure 1: Revenue



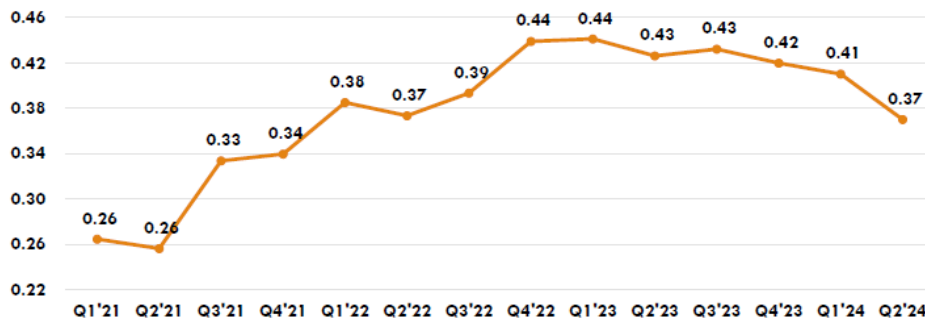
Source: Company data

Figure 2: Profit after tax



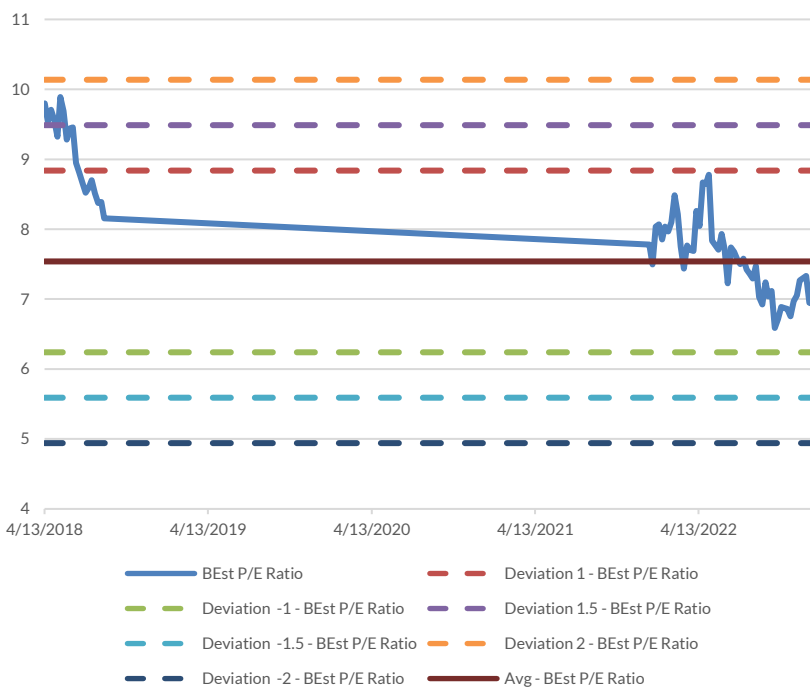
Source: Company data

Figure 3: TSCB's domestic eggs ASPs (MYR)



Source: Company data, RHB

Figure 4: 5-year blended forward P/E



Source: Bloomberg, RHB

Figure 5: Peer comparison table

Company	Country	FYE	Mkt cap (USDm)	Price		P/E (x)		Div. yld (%)	ROE (%)	EV/ EBITDA	NP Growth (%)		PEG	
				18-Oct-22	(Local currency)	Actual	1-yr fwd				2-yr fwd	1-yr fwd		1-yr fwd
TSCB	MA	12/2023	85.8	2.37		4.6	4.1	4.2	7.4	32.6	0.1	12.6	-3	0.3
Local small mid cap egg producers/poultry farming players														
CAB Cakaran Corp	MA	09/2024	105.9	0.65		4.5	5.3	4.5	Na	10.9	3.6	-16.2	18.8	0.2
Lay Hong	MA	03/2025	64.1	0.37		3.3	na	na	na	na	na	na	na	na
TPC Plus	MA	12/2024	26.5	0.37		2.8	na	na	na	na	na	na	na	na
LTKM	MA	03/2025	45.5	1.38		3.6	na	na	na	na	na	na	na	na
CCK Consolidated Holdings	MA	12/2024	227.7	1.59		12.5	12.0	11.0	2.7	19.2	na	4.1	9.3	1.2
PWF Corp	MA	12/2024	66.0	0.89		6.0	7.5	6.3	na	10.7	2.7	-20.9	19.0	0.3
Leong Hup International	MA	12/2024	631.1	0.75		9.5	8.7	8.3	3.2	10.5	5.5	9.0	4.8	1.7
Market cap weighted average						8.7	9.0	8.4	3.1	12.5	5.0	3.4	8.2	1.4
Simple average						6.0	8.4	7.5	2.9	12.8	3.9	-6.0	13.0	0.9

Source: Bloomberg, RHB

21 October 2024

Consumer Non-cyclical | Food Products

Figure 6: Operating matrix (vs peers)

Company	Revenue 3-year CAGR	Net Profit 3-year CAGR	EBITDA Margin	Net Profit Margin	Net Gearing % (Latest)
TSCB	15.8%	72.4%	26.0%	20.5%	3.9
Peers					
CAB Cakaran Corp	8.6%	106.5%	11.5%	4.8%	32.0
Lay Hong	9.4%	131.6%	17.3%	8.7%	30.1
TPC Plus	22.6%	175.2%	14.0%	9.6%	26.1
LTKM	9.5%	40.9%	27.1%	22.7%	Net Cash
CCK Consolidated Holdings	14.6%	35.9%	13.3%	8.5%	Net Cash
PWF Corp	15.1%	100.3%	20.1%	9.1%	14.1
Leong Hup International	16.4%	26.1%	10.8%	3.2%	65.6
QL Resources	22.5%	26.4%	14.3%	6.6%	28.0
Market cap weighted average	9.1%	41.6%	14.8%	9.1%	12.8
Simple average	11.1%	40.1%	16.6%	10.8%	29.4

Source: Bloomberg, RHB

Market Overview and Competitive Landscape

Reliance on domestic supply. Eggs are the most affordable protein source, making their freshness crucial to Malaysia's food security. The shorter shelf life and perishability with no option for freezing, its reliance on domestic production is vital, as Malaysia's daily egg supply of over 20m as at Jun 2024 is still 15% below pre-COVID-19 levels.

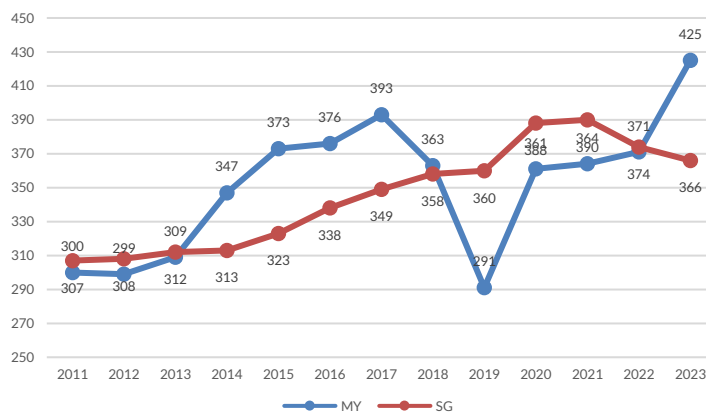
Demand and supply. According to Lee Yoon Yeau, deputy president of the Federation of Livestock Farmers' Associations of Malaysia, the daily egg supply is expected to reach 30m by 2H24, matching the levels of 2019. On the egg consumption perspective, with a per capita egg consumption of 425 eggs and a population of 34,308,525, the daily egg consumption in Malaysia for 2023 is approximately 40m eggs per day. There is inevitably a rising egg consumption in 2024 and beyond, boosted by population growth (of 2.1% in 2024, DOSM), increasing tourist arrivals (+28.9% YoY in 1H24, Tourism Malaysia) and expanding retail market growth along with broader distribution channels. Eggs are among the essential products in every supermarket, mini-market, and hypermarket. The overall retail market in Malaysia is projected to grow at a 2024-2029 CAGR of c.5.9%, with supermarkets, hypermarkets, and convenience stores playing a pivotal role in this growth (Mordor Intelligence).

As estimated current egg consumption per day of over 40m is still below the estimated daily egg supply of 30m, we expect the egg supply to fully stabilise against egg demand by 2H25. This assumes production expansion growth of c.10m every half year, in line with Lee's estimation.

Market share. In 2022, TSCB captured c.13% and c.16% of the market share in West Malaysia and Singapore. The group is ranked Top 3 in the West Malaysian market, and the biggest Malaysian egg exporter to Singapore. Consumption per capita and per year in Malaysia and Singapore has been growing steadily (Figure 4) despite a sharp drop during the pandemic, in 2019. According to Statista, egg consumption in Malaysia is projected to grow by 7.58% (2023-2028), resulting in a market volume of USD0.85bn in 2028. Prices of the two key ingredients of poultry feed – corn and soybean meal – have fallen c.40% and c.25% off 2024's YTD peak (Figures 9 and 10).

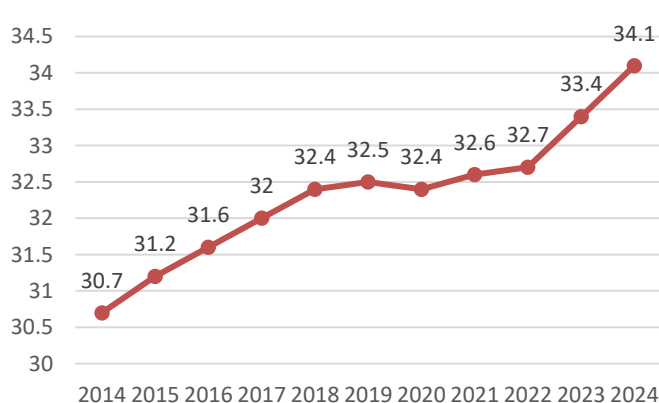
Higher entry barrier in the industry is seen due to: i) Rising land prices, ii) high investment costs (especially to convert from an open-house system to a closed-house one), and iii) increasingly stringent regulatory requirements. This has facilitated market share gains for major players like TSCB, in our view, coupled with having strong day-old chick supply support from parent Leong Hup International (LHIB MK, BUY, TP: MYR0.84).

Figure 7: Consumption per capita - Malaysia and Singapore



Source: Department of Veterinary Services, Singapore Food Agency

Figure 8: Malaysia population (m)



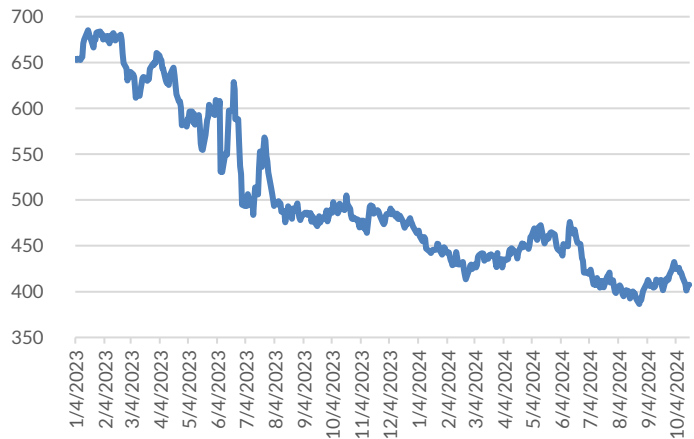
Source: Department of Statistic Malaysia (DOSM), RHB

Figure 9: Soybean meal prices



Source: Bloomberg, RHB

Figure 10: Corn prices



Source: Bloomberg, RHB

Figure 11: 1-year USD/MYR chart



Source: Trading Economics

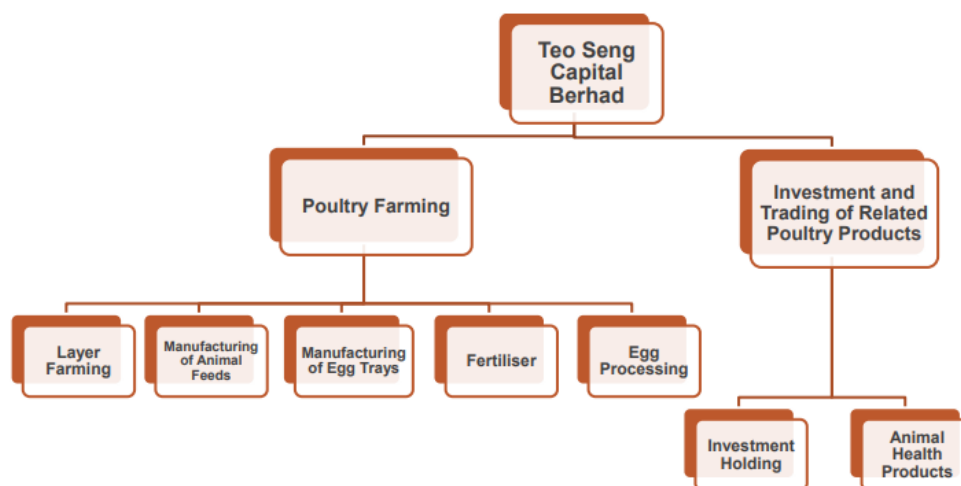
Company Overview

TSCB is one of the largest poultry players in Malaysia. The group develops an integrated layer farming management system – all-in all-out or AIAO – to ensure a seamless working environment as well as minimising transmission of diseases. It has 24 farms, consisting of eight pullets and 16-layer farms located in Johor, Malaysia. It has been given a Grade A poultry license and Malaysian Good Agricultural Practice by the Department of Veterinary Services or DVS. TSCB has also established its footprint in Singapore, where more than 50% of its layer farms are accredited by the Singapore Food Agency or SFA to export eggs to the country.

The group has two main business segments – poultry farming, and investment & trading of other poultry-related products, which will be further discussed below:

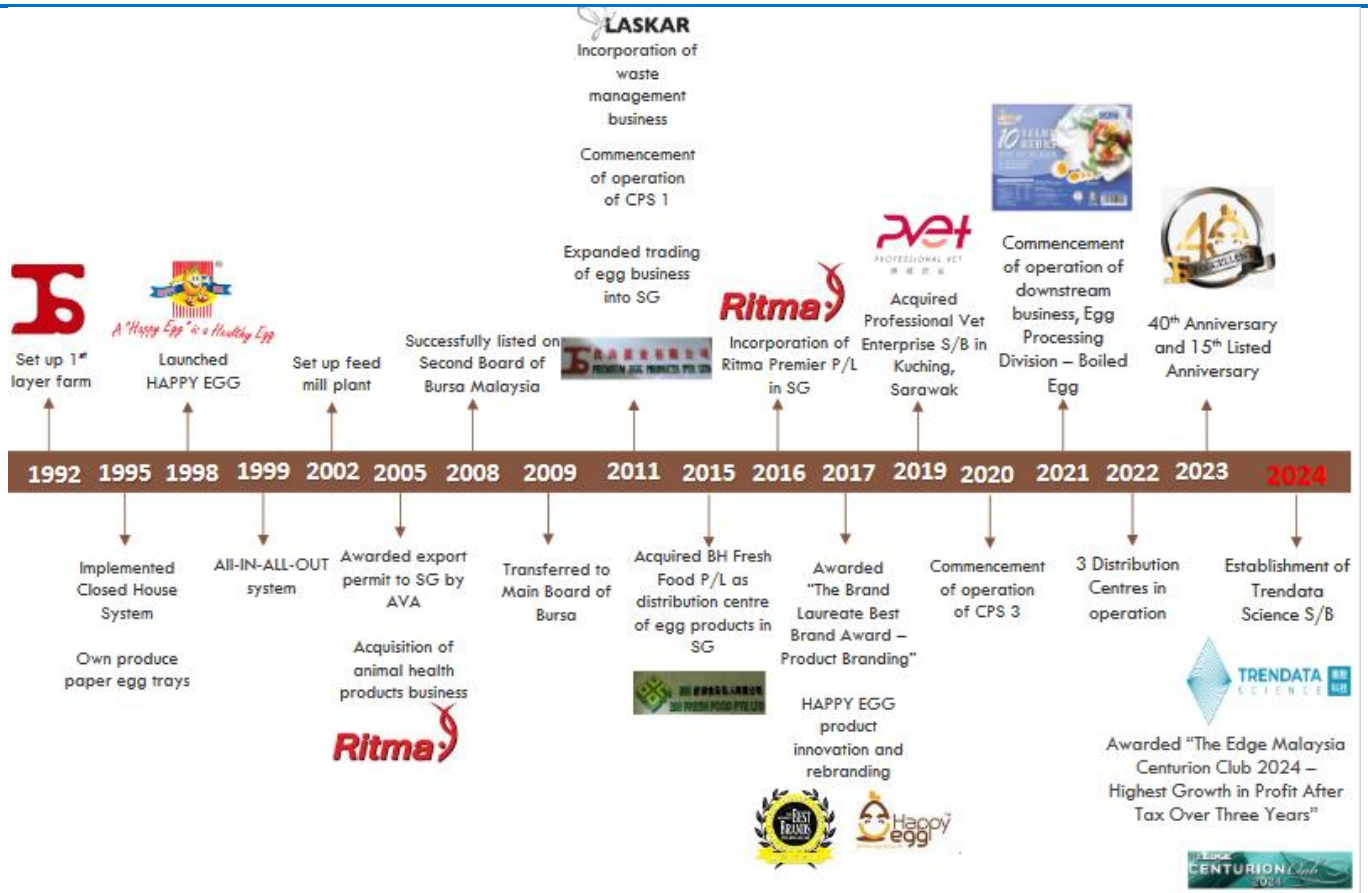
- i. **Poultry farming (86.7% of FY23 revenue):** TSCB's main revenue driver is poultry farming. Its product portfolio in this segment includes the production of eggs, paper egg trays, fertilisers, layer farming, and boiled eggs. The group's egg production increased significantly over its 31 years of business – from 100,000 to the current 4.5m eggs per day. TSCB also has its own feed mill, paper egg trays production, and waste management system, which leaves room for development, customisation, and ultimately, cost savings in the long run. Of the 4.5m eggs produced daily, the group exports approximately 20%, mainly to Singapore, with customers ranging from end-consumers, retailers, manufacturers, hypermarkets, and wholesalers. In an attempt to capture a more direct market share and provide efficient customer service, it has also set up three distribution centres in Penang, Kuantan, and Johor Bahru;
- ii. **Investment and trading of other poultry-related products (13.3% of FY23 revenue).** In this segment, TSCB mainly deals with the distribution of pet food, medicine, and other animal health-related products, which contributed 13.1% of FY23's revenue. The remaining 0.2% or MYR0.91m came from the group's investment holding and provision of management services, as well as warehouse rental income. As digital and online marketing trends become more prevalent following the COVID-19 pandemic, TSCB is also hopping on the opportunity to sell its animal health products on e-commerce sites as well as its own online platform.

Figure 12: Business segments



Source: Company data

Figure 13: History and milestones



Source: Company data

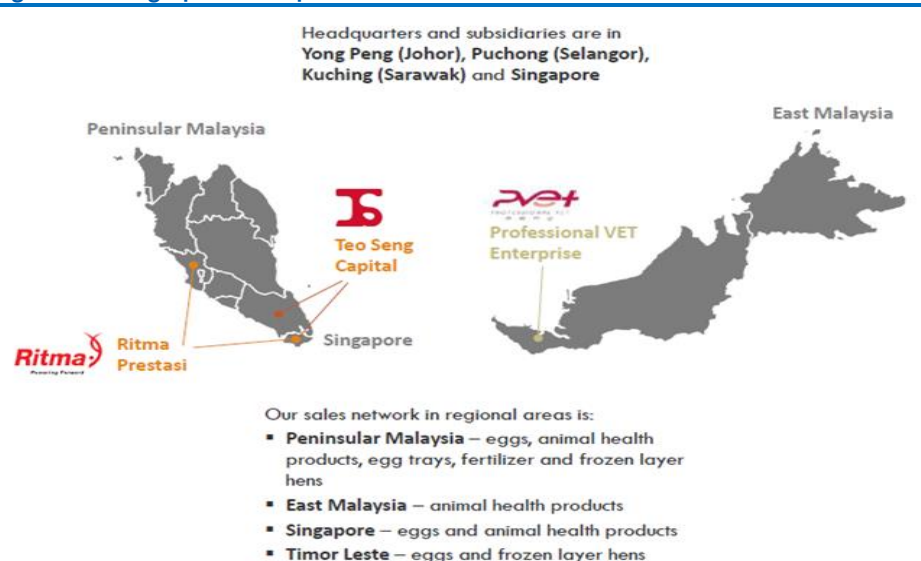
Figure 14: Key shareholders

Key Shareholders	Direct	%
Advantage Valuation (51% owned by Leong Hup)	155.66	52.3
Kong Goon Khing	10.00	3.36
Leong Hup (Malaysia)	7.10	2.39

Note: Company data (FY23 annual report), Bloomberg

Source: Company data

Figure 15: Geographical footprint



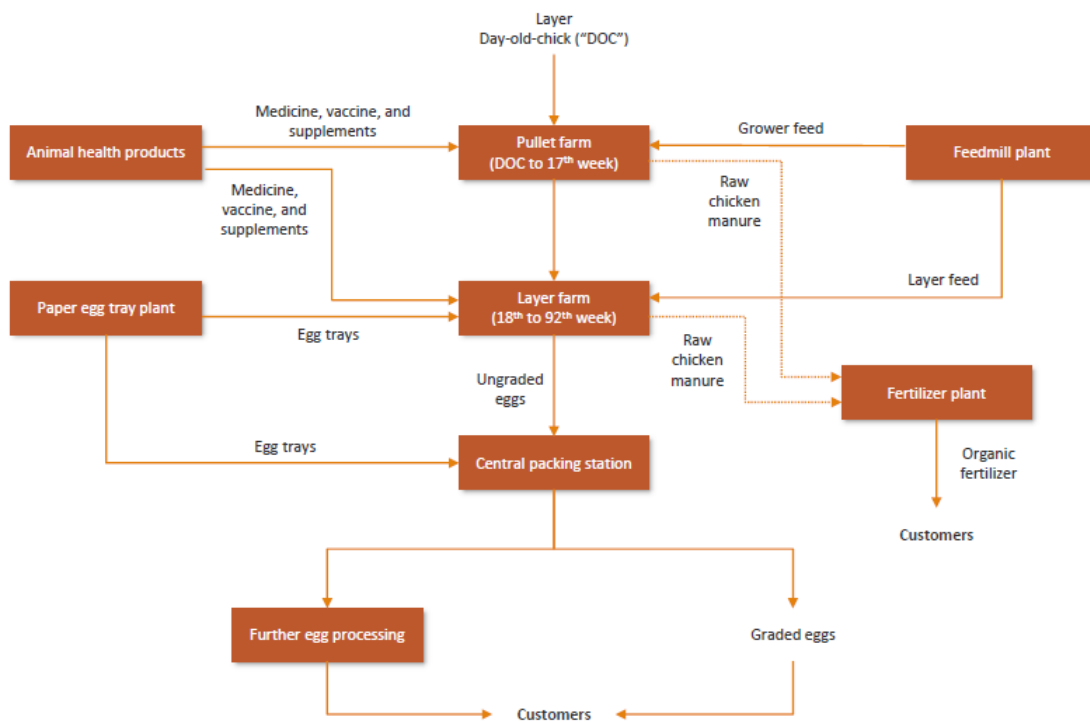
Source: Company data

Figure 16: Products portfolio



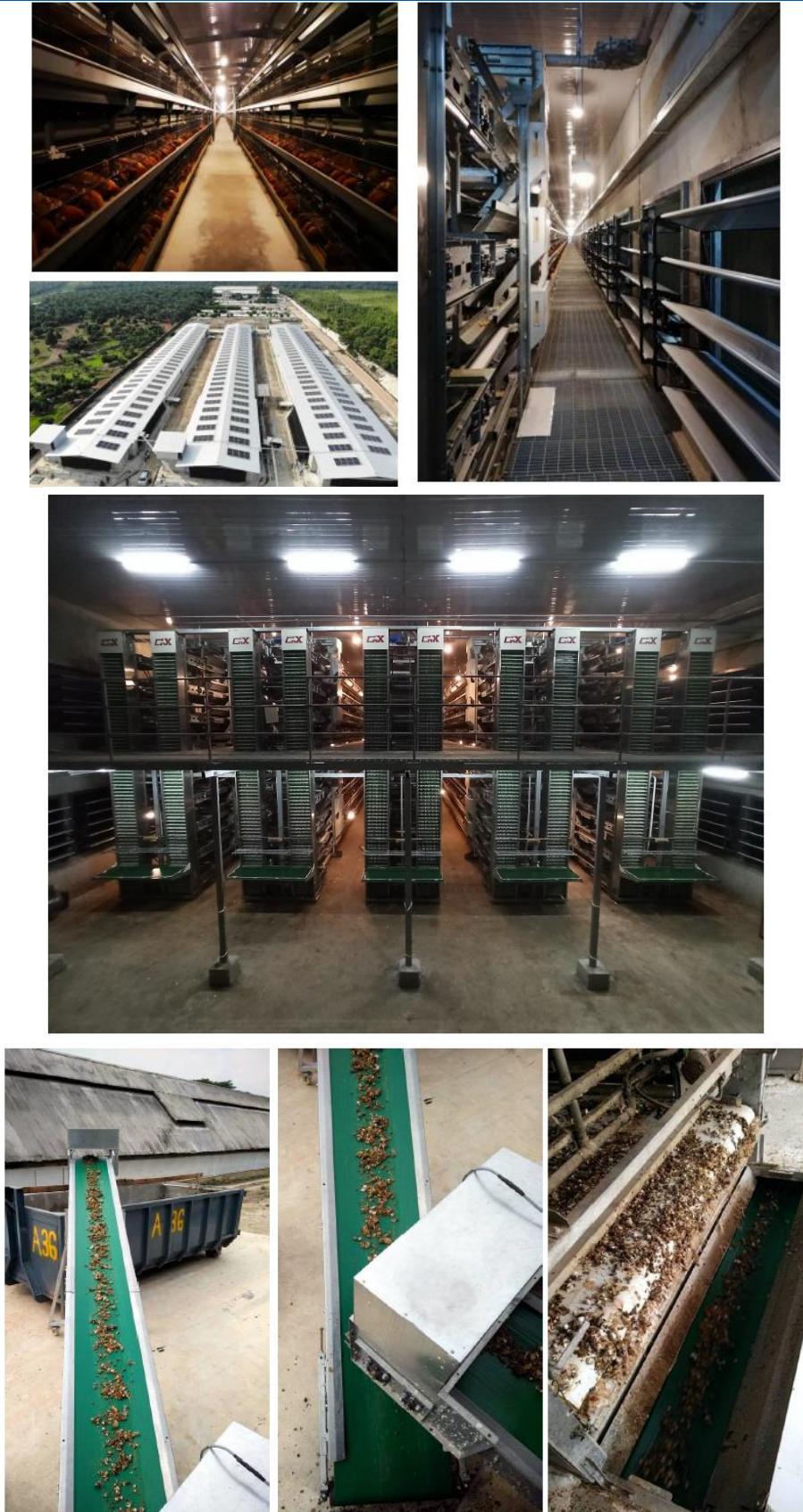
Source: Company data

Figure 17: Integrated layer farming operational process



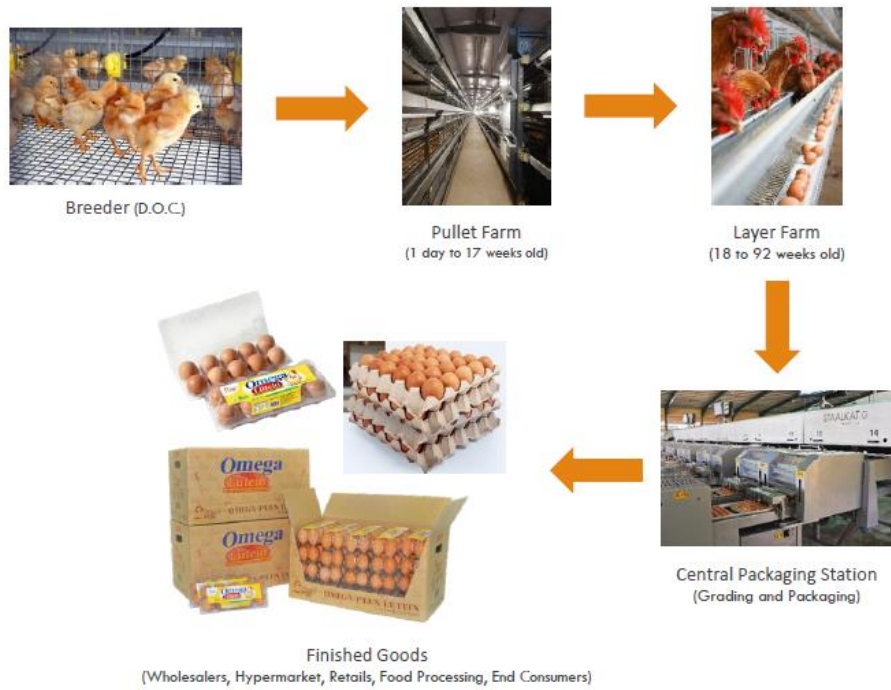
Source: Company data

Figure 18: Closed-house layer farming equipped with solar systems and automation



Source: Company data, RHB

Figure 19: Layer farming operational process



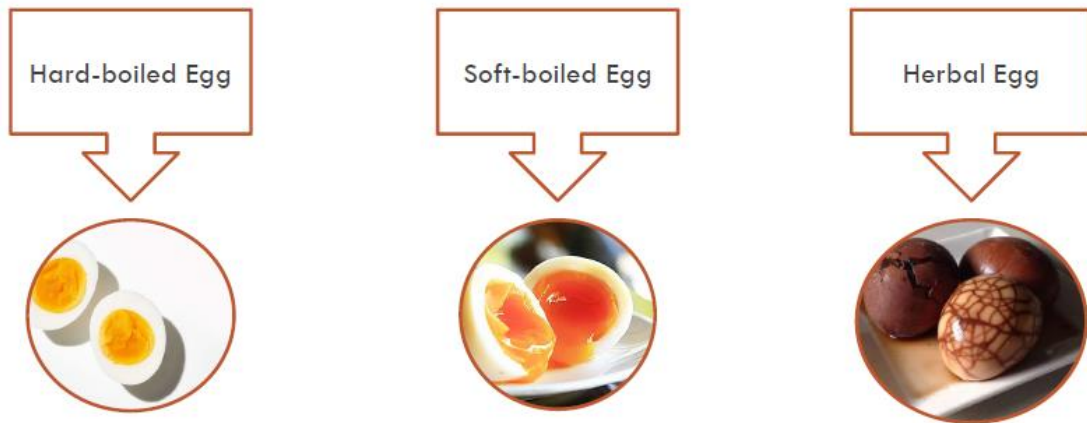
Source: Company data

Figure 20: Boiled egg products



Source: Company data, RHB

Figure 21: New products



Source: Company data

Key Risks:

- i. Fluctuations in supply and feed prices;
- ii. Risk of diseases;
- iii. Fluctuations in egg prices;
- iv. Export bans on eggs.

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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